

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2016/2017

PEM0034 – ESSENTIALS OF MACROECONOMICS

(Foundation in Management)

29 MAY 2017
2.30 p.m. - 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **ELEVEN (11) pages** excluding cover page with Section A and Section B.
2. Answer **ALL** questions in **Sections A & B**.
3. The answers for **Section A** should be shaded on the OMR sheet. The answers for **Section B** should be written in the answer booklet provided.

SECTION A: MULTIPLE CHOICE QUESTIONS [40 MARKS]

Instructions: Answer ALL questions in this section. Shade the answers on the OMR sheet.

1. The term "final goods and services" refers to
 - A. goods and services that are unsold and therefore added to inventories.
 - B. goods and services whose value has been adjusted for changes in the price level.
 - C. goods and services purchased by ultimate users, as opposed to resale or further processing.
 - D. the excess of Malaysian exports over Malaysian imports.
2. Which of the following is NOT an economic investment?
 - A. The purchase of a drill press by the Ajax Manufacturing Company
 - B. The purchase of 100 shares of A&T by a retired business executive
 - C. Construction of a suburban housing project
 - D. The piling up of inventories on a grocer's shelf
3. The real-balances, interest-rate, and foreign purchases effects all help explain
 - A. why the aggregate demand curve is downward-sloping.
 - B. why the aggregate supply curve is upward-sloping.
 - C. shifts in the aggregate demand curve.
 - D. shifts in the aggregate supply curve.
4. As disposable income increases, consumption
 - A. and savings both increase.
 - B. and savings both decrease.
 - C. decreases and savings increases.
 - D. increases and savings decreases.
5. The multiplier effect means that
 - A. consumption is typically several times as large as saving.
 - B. a small change in consumption can cause a much larger increase in investment.
 - C. a small increase in investment can cause GDP to change by a larger amount.
 - D. a small decline in the MPC can cause equilibrium GDP to rise by several times that amount.

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6. Fiscal policy refers to the
- A. manipulation of government spending and taxes to stabilise domestic output, employment, and the price level.
 - B. manipulation of government spending and taxes to achieve greater equality in the distribution of income.
 - C. altering of the interest rate to change aggregate demand.
 - D. fact that equal increases in government spending and taxation will be contractionary.
7. If you write a cheque on a bank to purchase a used Honda Civic, you are using money primarily as
- A. a medium of exchange.
 - B. a store of value.
 - C. a unit of account.
 - D. an economic investment.
8. The purchasing power of money and the price level vary
- A. inversely.
 - B. directly during recessions, but inversely during inflations.
 - C. directly, but not proportionately.
 - D. directly and proportionately.
9. A reserve requirement of 20 percent means a bank must have RM1,000 of reserves if its checkable deposits are
- A. RM100.
 - B. RM1,000.
 - C. RM5,000.
 - D. RM12,000.
10. The greater the legal reserve ratio, the
- A. higher is the income multiplier.
 - B. lower is the income multiplier.
 - C. lower is the money multiplier.
 - D. higher is the money multiplier.
11. The Bank Negara Malaysia can change the money supply by
- A. changing bank reserves through the sale or purchase of government securities.
 - B. changing the quantities of required and excess reserves by altering the legal reserve ratio.
 - C. changing the discount rate so as to encourage or discourage commercial banks in borrowing from the central bank.
 - D. doing all of the above.

Continued...

12. The purchase of government securities from the public by the Bank Negara Malaysia will cause
- A. commercial bank reserves to decrease.
 - B. the money supply to increase.
 - C. checkable deposits to decrease
 - D. the interest rate to increase.
13. Assume the economy is operating at less than full employment. An expansionary monetary policy will cause interest rates to _____, which will _____ investment spending.
- A. decrease; decrease
 - B. decrease; increase
 - C. increase; increase
 - D. increase; decrease
14. If the amount of money demanded exceeds the amount supplied, the
- A. demand-for-money curve will shift to the left.
 - B. money supply curve will shift to the right.
 - C. interest rate will rise.
 - D. interest rate will fall.
15. If the central bank was attempting to reduce demand-pull inflation, the proper policies would be to
- A. sell government securities, raise reserve requirements, and raise the discount rate.
 - B. buy government securities, raise reserve requirements, and raise the discount rate.
 - C. sell government securities, lower reserve requirements, and lower the discount rate.
 - D. sell government securities, raise reserve requirements, and lower the discount rate.
16. "Too much money chasing too few goods" best describes
- A. the GDP gap.
 - B. demand-pull inflation.
 - C. the inflation premium.
 - D. cost-push inflation.
17. During a period of hyperinflation,
- A. creditors gain because their loans are repaid with ringgit of higher value.
 - B. people tend to hold goods rather than money.
 - C. income is redistributed away from borrowers.
 - D. the real value of the national currency rises.

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18. Who is *least* likely to be hurt by unanticipated inflation?
- A. a disabled labourer who is living off accumulated savings
 - B. an owner of a small business
 - C. a secretary
 - D. a pensioned steelworker
19. If the nominal interest rate is 12 percent and the real interest rate is 8 percent, then the inflation rate is
- A. 8 percent.
 - B. 12 percent.
 - C. 4 percent.
 - D. 20 percent.
20. If the economy were encountering a severe recession, proper monetary and fiscal policies would call for
- A. selling government securities, raising the reserve ratio, lowering the discount rate, and a budget surplus.
 - B. buying government securities, reducing the reserve ratio, reducing the discount rate, and a budget deficit.
 - C. buying government securities, raising the reserve ratio, raising the discount rate, and a budget surplus.
 - D. buying government securities, reducing the reserve ratio, raising the discount rate, and a budget deficit.
21. To be officially unemployed a person must
- A. be in the labour force.
 - B. be 21 years of age or older.
 - C. have just lost a job.
 - D. be waiting to be called back from a layoff.
22. Anne works in her own home as a full-time caretaker and homemaker. Officially, she is
- A. unemployed.
 - B. employed.
 - C. not in the labour force.
 - D. in the labour force.
23. Assume that Henry Tan is temporarily unemployed because he has voluntarily quit his job with company A and will begin a better job next week with company B. Henry Tan will be considered as
- A. cyclically unemployed.
 - B. frictionally unemployed.
 - C. secularly unemployed.
 - D. employed.

Continued...

24. Suppose there are 5 million unemployed workers seeking jobs. After a period of time, 1 million of them become discouraged over their job prospects and cease to look for work. As a result of this, the official unemployment rate would
- increase in the short run but eventually decline.
 - increase.
 - decline.
 - be unchanged.
25. If the central bank increases the money supply, in the short run, prices
- rise and unemployment falls.
 - fall and unemployment rises.
 - and unemployment rise.
 - and unemployment fall.
26. In the short run
- unemployment and inflation are positively related. In the long run they are largely unrelated problems.
 - and in the long run inflation and unemployment are positively related.
 - unemployment and inflation are negatively related. In the long run they are largely unrelated problems.
 - and in the long run inflation and unemployment are negatively related.

Answer questions 27 to 29 using the following production possibilities data for Gamma and Sigma (*Figure 1*). All data are in tons.

Figure 1

Gamma production possibilities:

	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>
Tea	120	90	60	30	0
Pots	0	30	60	90	120

Sigma production possibilities:

	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>E</u>
Tea	40	30	20	10	0
Pots	0	30	60	90	120

27. On the basis of the above information
- Gamma should export both tea and pots to Sigma.
 - Sigma should export tea to Gamma and Gamma should export pots to Sigma.
 - Gamma should export tea to Sigma and Sigma should export pots to Gamma.
 - Gamma should export tea to Sigma, but it will not be profitable for the two nations to exchange pots.

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28. Refer to *Figure 1*. What are the limits of the terms of trade between Gamma and Sigma?
- A. 1 tea = 2 pots to 1 tea = 6 pots
 - B. 1 tea = 3 pots to 1 tea = 6 pots
 - C. 1 tea = 2 pots to 1 tea = 3.5 pots
 - D. 1 tea = 1 pot to 1 tea = 3 pots
29. Refer to *Figure 1*. Assume that before specialisation and trade Gamma and Sigma both chose production possibility "C." Now if each specialises, the gains from specialisation and trade will be
- A. 40 tons of pots.
 - B. 20 tons of tea and 20 tons of pots.
 - C. 20 tons of tea.
 - D. 40 tons of tea.
30. Countries engaged in international trade specialise in production based on
- A. relative levels of GDP.
 - B. comparative advantage.
 - C. relative exchange rates.
 - D. relative inflation rates.
31. Country Z limits other nation's exports to Country Z to 10,000 bottles of wine annually. This is an example of a(n)
- A. protective tariff.
 - B. export subsidy.
 - C. import quota.
 - D. voluntary export restriction.
32. A tariff can best be described as
- A. an excise tax on an imported good.
 - B. a government payment to domestic producers to enable them to sell competitively in world markets.
 - C. an excise tax on an exported good.
 - D. a law that sets a limit on the amount of a good that can be imported.
33. Malaysia's export transactions create
- A. a Malaysia demand for foreign monies and the satisfaction of this demand decreases the supplies of ringgit held by foreign banks.
 - B. a Malaysia demand for foreign monies and the satisfaction of this demand increases the supplies of ringgit held by foreign banks.
 - C. a foreign demand for ringgit and the satisfaction of this demand decreases the supplies of foreign monies held by Malaysia banks.
 - D. a foreign demand for ringgit and the satisfaction of this demand increases the supplies of foreign monies held by Malaysia banks.

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34. If a U.S. importer can purchase £10,000 for US\$20,000, the rate of exchange is
- A. US\$1 = £2 in the United States.
 - B. \$2 = £1 in the United States.
 - C. \$1 = £2 in Great Britain.
 - D. \$0.5 = £1 in Great Britain.
35. The current account in a nation's balance of payments includes
- A. its goods exports and imports, and its services exports and imports.
 - B. changes in its official reserves.
 - C. purchases of foreign assets, and foreign purchases of assets.
 - D. all of the above.
36. Which of the following combinations is correct, as it relates to a nation's balance of payments?
- A. current account = + RM40 billion; capital account = + RM20 billion; official reserves account = - RM50 billion.
 - B. current account = + RM50 billion; capital account = - RM20 billion; official reserves account = + RM30 billion.
 - C. current account = + RM10 billion; capital account = + RM40 billion; official reserves account = + RM50 billion.
 - D. current account = + RM30 billion; capital account = - RM20 billion; official reserves account = - RM10 billion.
37. Which of the following would contribute to a Malaysia balance of payments deficit?
- A. Kawasaki builds a motorcycle manufacturing plant in Shah Alam
 - B. Malaysian tourists travel in large numbers to Europe
 - C. a wealthy Mexican citizen builds a mansion in Ipoh
 - D. Zaire pays interest on its debt to Malaysia
38. If the exchange rate between the US dollar and the Japanese yen is US\$1 = 200 yen, then the dollar price of yen is
- A. US\$0.005.
 - B. US\$0.05.
 - C. US\$0.50.
 - D. US\$5.
39. If in a system of fixed exchange rates the US dollar price of euros is above the market equilibrium level
- A. gold will flow from the United States to Europe.
 - B. there will be a surplus of euros.
 - C. the United States government will have to ration euros to U.S. importers.
 - D. there will be a shortage of euros.

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40. Assume that Thailand and Malaysia have floating exchange rates. Other things unchanged, if the price level is stable in Malaysia but Thailand experiences rapid inflation
- gold bullion will flow into Thailand.
 - the Thai Baht will depreciate.
 - the Ringgit Malaysia will depreciate.
 - the Thai Baht will appreciate.

SECTION B: STRUCTURED QUESTIONS (60 MARKS)

Instructions: Answer **ALL** questions in this section. Write your answers in the answer booklet provided.

Question 1

- a) Use the figures in **Table 1** below to answer the following questions.

Table 1

	RM (billion)
Time deposits	1260
Deposits with other banking institutions	1290
Saving deposits	1750
Money-market mutual funds	850
Checkable deposits	896
Currency	340

- What is the value of M1? (2 marks)
 - What is the value of M2? (2 marks)
 - What is the value of M3? (2 marks)
- b) Explain any **TWO (2)** major functions of the Bank Negara Malaysia. (4 marks)
- c) Use **Table 2** below to answer the questions:

Table 2

Interest rate (%)	Precautionary & speculative demand (RM, billion)
14	200
13	300
12	400
11	500

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- (i) If the transactions demand for money equals 10% of nominal GDP, the nominal GDP is RM6000 billion, and the supply of money is RM900 billion, what is the equilibrium interest rate? (2 marks)
- (ii) If nominal GDP remains constant, and the money supply is increased from RM900 billion to RM1000 billion, what will be the equilibrium interest rate? (2 marks)
- d) Given the following consolidated balance sheet for the commercial banking system. Assume the required reserve ratio is 30 percent.

Assets (RM millions)		Liabilities (RM millions)	
Reserves	RM200	Deposits	RM600
Property	RM300		
Loans	RM100		

- (i) What is the amount of excess reserves in this commercial banking system? (2 marks)
- (ii) Based on your answer in (i), what is the maximum amount that the money supply can be expanded? (2 marks)
- (iii) If the reserve ratio fell to 25 percent, what is now the maximum amount that the money supply can be expanded? (2 marks)

[Total: 20 marks]

Question 2

- a) Describe cost-push inflation and its major sources. (4 marks)
- b) Given the following data in **Table 3** using Year 1 as the base year.

Table 3

Year	Nominal Income (RM, billion)	CPI
1	3,166	100
2	3,402	104
3	3,774	108
4	3,989	112

- (i) Find the real income in year 4. (2 marks)
- (ii) What is the percentage rise in prices between years 1 and 3? (2 marks)

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- (iii) What is the percentage rise in prices between years 2 and 4? (2 marks)
- (iv) What is the percentage increase in real income from year 3 to year 4? (3 marks)
- c) In Year 2016, the statistics of the population (in thousands) for Country XYZ are shown in **Table 4**:

Table 4

Total population (in thousands)	1,500
Population under age 18 and institutionalised	360
Not in labour force	450
Unemployed	69
Workers with part-time jobs who are looking for full-time jobs	30

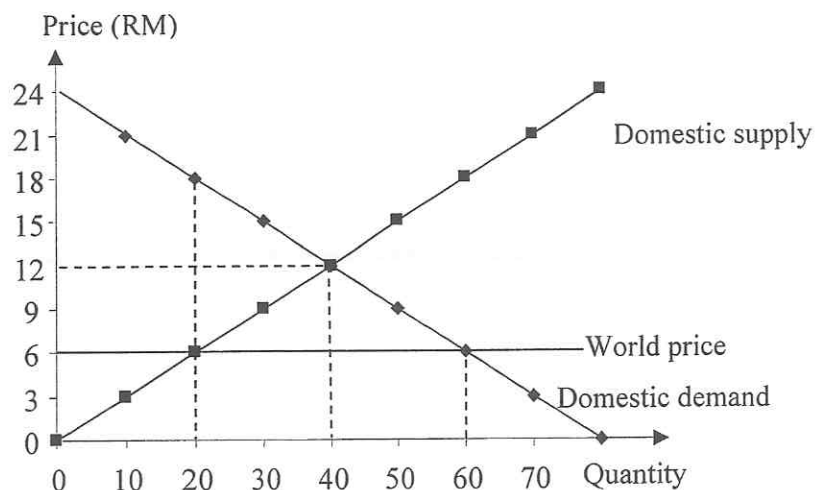
Based on the data above, calculate:

- (i) The size of the labour force (2 marks)
- (ii) The official unemployment rate (2 marks)
- d) Suppose the economy is experiencing inflation. Explain how a contractionary monetary policy would address this problem. (3 marks)

[Total: 20 marks]

Question 3

- a) Use the below graph, where S_d and D_d are the domestic supply and demand for a product, to answer the following questions. The world price of the product is RM6.



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- (i) If trade is not allowed, what is the equilibrium price and quantity in this market? (2 marks)
- (ii) If trade is allowed, will this country import or export the commodity? Why? (2 marks)
- (iii) How much is the producer surplus in this country after trade? (2 marks)
- b) Explain any **TWO (2)** important reasons why nations engage in international trade. (4 marks)
- c) What is the official reserves account and how is it used in the balance of payments? (4 marks)
- d) What will happen to the supply of Ringgit Malaysia (RM), the demand for RM, and the equilibrium exchange rates of RM in each of the following cases in **Table 5**? Recreate **Table 5** in your answer booklet.

Table 5

No.	Cases	Supply of RM (Increase or Decrease or Same)	Demand for RM (Increase or Decrease or Same)	Equilibrium Exchange Rate of RM (Increase or Decrease or Same)
(i)	Malaysians buy more Japanese goods.			
(ii)	Americans invest in Malaysian stock market.			
(iii)	Malaysians buy U.S. government bonds.			
(iv)	China tourists flock to Malaysia			

(6 marks)

[Total: 20 marks]**End of Page**